

STATE OF ARIZONA

Joint Committee on Capital Review

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ANDY NICHOLS
CHRISTINE WEASON

JOINT COMMITTEE ON CAPITAL REVIEW

Tuesday, December 19, 2000

10:00 a.m.

House Hearing Room 4

AGENDA

TENTATIVE AGENDA

- Call to Order
- [Approval of Minutes of November 28, 2000.](#)
- DIRECTOR'S REPORT (if necessary)
- 1. [EXECUTIVE SESSION - DEPARTMENT OF HEALTH SERVICES/ARIZONA DEPARTMENT OF ADMINISTRATION - Review Bid Proposals for Arizona State Hospital Construction Project.*](#)
- 2. [SCHOOL FACILITIES BOARD - **ADDITIONAL MATERIALS FOR AGENDA ITEM 2B AND 3**](#)
 - A. [Report on Attorney General's Opinion on School Facilities Board Building Renewal Fund.](#)
 - B. [Report on FY 2002 Instructions to the Treasurer.](#)
- 3. [ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY - Consider Approval of Bond Projects.](#)

* As permitted under A.R.S. § 38-431.03(A)(2) and A.R.S. § 41-2534(D).

The Chairman reserves the right to set the order of the agenda.
12/12/00

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MINUTES OF THE MEETING JOINT COMMITTEE ON CAPITAL REVIEW REVISED

Tuesday, November 28, 2000

The Chairman called the meeting to order at 8:43 a.m. Tuesday, November 28, 2000 in House Hearing Room 5 and attendance was noted.

Members:	Representative Burns, Chairman Representative Cooley Representative Daniels Representative Johnson Representative McLendon Representative Nichols Representative Weason	Senator Gnant, Vice-Chairman Senator Bowers Senator Brown Senator Solomon
Absent:		Senator Arzberger Senator Smith Senator Wettaw
Staff:	Richard Stavneak Lorenzo Martinez Chris Earnest Bob Hull	Jan Belisle, Secretary Gina Guarascio Patrick Fearon
Others:	Jay Ziemann, State Parks Debbie Johnston, Senate Kitty Decker, House Dr. Philip Geiger, SFB Roger Berna, ADOA	John Sempert, ADOA Bruce Ringwald, ADOA Tim Brand, ADOA Charles Haverstick, ADOT Jack Jones, ADOA

APPROVAL OF MINUTES

Representative Burns asked for corrections or additions to the minutes of October 19, 2000. Hearing none, the minutes were approved as submitted.

Representative Burns held Agenda Item 1 until the December JCCR meeting.

ARIZONA DEPARTMENT OF TRANSPORTATION - Review of Scope, Purpose, and Estimated Cost of Motor Vehicle Division Central Arizona Port Project.

Bob Hull, JLBC Staff presented the Arizona Department of Transportation request to release \$268,300 from the State Highway Fund to replace 3 trailers and to make site improvements at the Motor Vehicle Division (MVD) Central Arizona Port. The JLBC Staff recommends a favorable review of the request.

(Continued)

Representative Daniels moved that the Committee give a favorable review of the scope, purpose, and estimated cost of Motor Vehicle Division Central Arizona Port Project. The motion carried.

SCHOOL FACILITIES BOARD - Review of FY 2001 Building Renewal Allocation Plan.

Richard Stavneak, JLBC Staff Director presented the review of the School Facilities Board Building Renewal Allocation Plan for FY 2001. As outlined in the memo, there were legal issues associated with this review which have not yet been resolved since they were first identified to JLBC Staff a week ago. The board is presenting a proposal to distribute \$120,000,000, but the Building Renewal formula requirement is \$122,000,000. There is also litigation on this subject for prior year shortfalls in building renewal funding in which the court appears to suggest that the amount of the formula should take precedence over the stated transfer amount.

Senator Solomon asked if all of the \$122,000,000 needs to be distributed within a short period of time. Mr. Stavneak said that it is distributed in two parts, half in November and half in May.

Senator Solomon asked if an opinion had been requested from the Attorney General's Office. Mr. Stavneak stated that the JLBC Staff has been in conversation with the office but a formal opinion has not been requested of them. Someone on the Committee could do so. They have not been definitive with regard to saying whether or not the board is under an obligation to request from the Treasurer the supplemental amount of approximately \$2,000,000.

Senator Solomon then asked the Representative Burns if he was considering asking for an opinion from the Attorney General. Representative Burns said he was willing to do so if it was the wish of the Committee.

Representative Nichols asked why the School Facilities Board could not go ahead and ask for the additional \$2,000,000 from the Treasurer. Mr. Stavneak said the Committee could give that guidance to the board.

In answer to Representative Nichols, Dr. Philip Geiger, Director, School Facilities Board stated that last year approximately \$116,000,000 was calculated based on information received from the districts. In July there was a second Index change in the formula. A letter was sent to the budget office referencing the need for an additional \$2,700,000. Districts received what they thought they would get but did not receive what they were entitled to under the formula. The estimate for FY 2002 is \$132,000,000.

In answer to Representative Cooley, Dr. Geiger said building renewal is intended to extend the life of the school district facilities. Many of the districts have not received the maintenance that is required. Roofs, windows, sewer lines, etc. need to be fixed or replaced. An annual report from the districts is required to show how money was spent. If money is spent inappropriately, the Attorney General's Office is notified. The money is to be used only for building renewal purposes. Many districts are using building renewal funds for items that have been deferred or delayed.

In answer to Representative Weason, Dr. Geiger stated that the plaintiff has been asked to provide data as to how they have been impaired in terms of the work that has not been completed.

In response to Representative Cooley, Dr. Geiger said some districts have faced huge crises. In the future, the SFB would like to recommend a study of what it costs to maintain a building in this state on a regular basis.

In answer to Representative McLendon, Dr. Geiger stated that the rural districts received 5% more monies. Rural districts are defined in statute.

Representative Nichols mentioned the motion should include that the SFB should explore ways to release the \$2,700,000.

Representative Burns respectfully disagreed and suggested this issue be reviewed at the December meeting.

Senator Solomon mentioned that the Legislature has an obligation to fund the SFB and requested the Committee ask for an Attorney General's opinion to clarify the matter.

(Continued)

Representative Burns said that he would request an opinion from the Attorney General's Office.

Representative Daniels moved that the Committee give a favorable review of the proposed distribution of the FY 2001 Building Renewal Fund monies pending further clarification of the effect of the Roosevelt Elementary School District v. Hull litigation on the current year allocation, and that the Committee also request an Attorneys General's opinion on the School Facilities Board's ability to request supplemental transfers from the State Treasurer to fully fund Building Renewal formula requirements. The motion carried.

DEPARTMENT OF HEALTH SERVICES/ARIZONA DEPARTMENT OF ADMINISTRATION - Report on the Arizona State Hospital Construction Project.

Gina Guarascio, JLBC Staff presented the quarterly progress report on the Arizona State Hospital (ASH) demolition and construction project. Arizona Department of Administration (ADOA) is in the process of reviewing proposals they have received to the Request for Proposal (RFP). ADOA plans to have their recommendation ready for Committee review at the December meeting.

Representative Burns asked if visits were being made to the hospital to observe what is happening and the progress that is being made. Ms. Guarascio stated she has visited the state hospital several times.

Representative Cooley recalled that funding for the project was to be \$20,000,000 each year over the next 4 years from the interest income on the Budget Stabilization Fund (BSF). How does the timeline for the project construction fit the timing of the funding? Ms. Guarascio said that ADOA established the construction schedule to fit the timing of the funding. ADOA has not informed the JLBC Staff of any problems or delays caused by the timeline.

In response to Senator Solomon, Ms. Guarascio said that funding has been appropriated to build ~~2~~ 3 dormitories for the Sexually Violent Persons (SVP) Program to increase capacity to 300 beds.

Dr. Nichols mentioned the Committee did have strong concerns on the issue and the Committee did hold the initial funding for the state hospital construction at one point. Ms. Guarascio mentioned that the SVP dormitories could not be used by ASH without renovation.

In answer to Representative Nichols, Mr. Stavneak stated that if BSF monies were used for alternative fuel funding, it would have an impact on the interest earnings to the BSF.

No Committee action was required.

ARIZONA STATE PARKS - Report on Kartchner Caverns State Park.

Chris Earnest, JLBC Staff presented the quarterly update on Kartchner Caverns State Park. The construction on the lower caverns is ongoing and scheduled for a November 2003 opening. In regards to the environmental concerns in the cave, Parks Staff has been consulting with cave experts and is in process of hiring a cave expert that would monitor the environmental conditions.

In answer to Representative Nichols, Mr. Earnest said the humidity did rise after the rains. In consulting with other cave experts, there was a trend throughout some of the southwestern caves of lower humidity levels during the recent drought period.

Representative Nichols commended the Parks department on maintaining the cave.

Representative Weason asked for the source of revenue to the Enhancement Fund. Mr. Earnest said that the Enhancement Fund receives revenues from park user and camping fees.

In answer to Representative Burns, Mr. Earnest stated approximately ~~\$12,700,000~~ \$2,700,000 has been generated by the park over the 12 months it has been open.

(Continued)

Representative Weason asked for a copy of the New York Times article on the park. Mr. Earnest said that he did not have a copy. The Parks department will get a copy for Representative Weason.

Representative Cooley asked if State Parks usually received General Fund monies or if they were suppose to be self-sustaining. Mr. Earnest said that the intent of the Enhancement Fund was to create a revenue source for parks to be self-sustaining. As Enhancement Fund monies have grown, the General Fund monies have been reduced.

In answer to Representative McLendon, Mr. Earnest replied that the State Parks are considering the effect that the focus on Kartchner has had on other parks in the system.

Representative Cooley referenced the book distributed at the October meeting and mentioned that all State Parks were listed with proposed improvements for each park.

No Committee action was required.

Without objection, the meeting adjourned at 9:40 a.m.

Respectfully submitted:

Jan Belisle, Secretary

Lorenzo Martinez, Senior Fiscal Analyst

Representative Robert "Bob" Burns, Chairman

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DATE: December 12, 2000

TO: Representative Bob Burns, Chairman
Members, Joint Committee on Capital Review

FROM: Richard Stavneak, Director

SUBJECT: EXECUTIVE SESSION - DEPARTMENT OF HEALTH SERVICES/ARIZONA
DEPARTMENT OF ADMINISTRATION - REVIEW BID PROPOSALS FOR
ARIZONA STATE HOSPITAL CONSTRUCTION PROJECT

Pursuant to Laws 2000, Chapter 1, the Committee is required to review the proposals of bidders for the Arizona State Hospital Construction Project. In accordance with A.R.S. § 41-2534, bid proposals are confidential during the evaluation and negotiation process. Due to confidentiality concerns, the Arizona Department of Administration has requested that materials not be distributed to Committee members until the meeting on Tuesday. This item will be reviewed by the Committee in Executive Session.

RS:jb

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DATE: December 15, 2000

TO: Representative Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Senior Fiscal Analyst

SUBJECT: ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY - CONSIDER
APPROVAL OF BOND ISSUANCE FOR PARKING USE FEE

Request

Pursuant to Laws 1996, Chapter 334, Arizona State University (ASU) requests approval to issue \$3,500,000 in auxiliary revenue bonds to partially finance a use fee for the right to use 700 parking spaces in perpetuity on the west side of the Main campus.

Recommendation

The JLBC Staff recommends the Committee approve the issuance of \$3,500,000 in auxiliary revenue bonds to partially finance a use fee for the right to use 700 parking spaces on the west side of the Main campus. The total requirement for the use fee is \$7,000,000.

Analysis

Laws 1996, Chapter 334 authorized the Arizona Board of Regents (ABOR) to issue up to \$245,400,000 in revenue bonds for the universities under its jurisdiction. Of this amount, \$100,000,000 was allocated to ASU. Pursuant to Chapter 334, the Committee favorably reviewed the ASU revised multi-year bonding plan in June 2000. Table 1 lists the projects in the ASU multi-year bonding plan.

Table 1

<u>Project</u>	<u>Bond Issuance</u>	<u>Status</u>
On-Campus Student Housing	\$15,000,000	JCCR Approved
Infrastructure Improvements Phase I	17,700,000	JCCR Approved
Mediated Classroom/Social Sciences Building	35,500,000	Subject of separate memo
Parking Structure	4,000,000	Subject of this memo
Academic Renovations	8,000,000	Net Yet Approved
Major Building Maintenance	9,800,000	Net Yet Approved
Infrastructure Improvements Phase II	<u>10,000,000</u>	Net Yet Approved
TOTAL	\$100,000,000	

(Continued)

Chapter 334 also requires JCCR to approve each individual bond project before bonds may be issued. The JCCR shall also invite comment from the Governor or a designated representative for each project.

ASU is requesting Committee approval to issue \$3,500,000 in auxiliary revenue bonds to pre-pay a portion of a use fee for 700 parking spaces. Prepayment of the fee will contribute to the developer's financing of the project and is less expensive than paying for the ASU spaces over an extended period. The total use fee is estimated to be \$7,000,000. The additional \$3,500,000 will be funded from existing parking funds.

ASU plans to modify a Disposition and Development Agreement (DDA) with Options to Ground Lease with ORIX TC21 Tempe Venture to allow the developer to construct an above-ground 1,150-space parking structure at the Tempe Center. The parking structure will be owned by ASU when completed, however, there will be a parking revenue sharing agreement between ASU and the developer.

The Tempe Center is located on the southeast corner of Mill Avenue and University Drive. The parcel is owned by ASU. The ground lease for the parcel is estimated to generate a minimum of \$365,000 per year for ASU. ASU will receive the greater of the \$365,000 or 9.6% of the developer's rental income. This revenue is separate from any parking generated revenue and will be retained by ASU for general university costs (non-appropriated).

Of the 1,150 parking spaces, 700 spaces will be allocated to ASU in perpetuity for visitor parking at a cost of \$7,000,000. Initially, the remaining 450 spaces would be allocated to the developer for commercial use associated with Phase I development of restaurant and retail space. The agreement would allow for the developer to license up to 500 of the 700 ASU spaces for commercial use associated with Phase II development of retail and commercial space. The developer would rebate to ASU its use fee associated with the use of any of these additional spaces. Phase I development is scheduled for completion by September 2002. If the developer chooses to pursue Phase II development, it must be started no later than 2004 and completed by the end of 2005.

Revenues generated by the ASU Parking Services system (including the new structure) will be used to pay the debt service on the \$3,500,000 auxiliary bond issuance. Parking Services is a self-supporting operation and does not have a General Fund impact. The bond issuance will be repaid over a 25-year period at an estimated 6% interest rate, and have a debt service requirement of approximately \$273,800 per year.

RS/LM:jb

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DATE: December 12, 2000

TO: Representative Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Patrick Fearon, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - REPORT ON ATTORNEY GENERAL'S OPINION
ON SCHOOL FACILITIES BUILDING RENEWAL FUND

This memo is to inform you that we have not yet received a response from the Attorney General on the questions that Representative Burns asked them to opine on after the November 28 JCCR meeting (please see attached letter):

1. Is the School Facilities Board required to instruct the Treasurer to credit a supplemental distribution from Transaction Privilege Tax revenues in an amount sufficient to fully fund the Building Renewal formula for FY 2001?
2. If not, is it permitted to do so?

The Attorney General's office is attempting to provide a response to these question prior to the December 19 JCCR meeting, but does not yet know if it will be able to do so. We therefore do not know if follow-up discussions on this issue will be on the agenda for that meeting.

As you know, this issue relates to the School Facilities Board's plan to request \$2,700,000 in supplemental funding for Building Renewal for FY 2001. At the November 28 JCCR meeting, the Board indicated that it would need the additional \$2,700,000 in order to fully fund the K-12 Building Renewal formula during FY 2001.

If the Attorney General does render an opinion on this issue prior to the December 19 meeting, we will distribute copies of the opinion as soon as we receive it.

RS/PF:jb
Attachment

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CHRISTINE WEASON

DATE: December 11, 2000

TO: Representative Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Patrick Fearon, Senior Fiscal Analyst

SUBJECT: SCHOOL FACILITIES BOARD - REPORT ON FY 2002 INSTRUCTIONS TO THE
TREASURER

Request

As required by A.R.S. § 15-2002, the School Facilities Board is reporting to the Committee on the estimated amounts necessary in FY 2002 for the Deficiencies Correction Fund, Building Renewal Fund, and New School Facilities Fund. The board also is reporting the projected needs for these funds for FY 2003.

Recommendation

This item is for information only and no Committee action is required. The board will instruct the Treasurer to transfer a total of \$882,000,000 in FY 2002 if no revenue bonds are issued. The board's estimate for FY 2003 is \$834,037,900 (if no revenue bonds are issued).

Analysis

A.R.S. § 15-2002 requires the School Facilities Board to instruct the State Treasurer by January 1 of each year as to the amounts under the Transaction Privilege Tax (TPT) to be credited to the Deficiencies Correction Fund, Building Renewal Fund, and New School Facilities Fund in the following fiscal year. Prior to reporting its transfer instructions to the Treasurer, the statute requires the board to report these amounts to the Joint Committee on Capital Review (JCCR). The funding is credited to these funds without an appropriation.

(Continued)

The amounts credited to the funds are budgeted as General Fund expenditures because the TPT revenues would be deposited into the General Fund if not first credited to the School Facilities Board funds. *Table 1* lists the dollar amounts that the board intends to instruct the Treasurer to transfer in FY 2002. The table also shows the amounts that the board projects it will need in FY 2003. The projected FY 2003 amounts are subject to change, and would serve only as placeholders for that year during the upcoming budget process.

Table 1: Estimated General Fund Requirement for SFB Funds for FY 2002 and FY 2003

<u>Fund Name</u>	<u>Transfer for FY 2001</u>	<u>Transfer for FY 2002</u>	<u>Placeholder for FY 2003</u>
New School Facilities	\$200,000,000	\$250,000,000	\$260,000,000
Building Renewal	120,000,000	132,000,000	137,827,900
Deficiencies Correction			
If Revenue Bonds Are Issued	0	0	136,210,000
If Revenue Bonds Are Not Issued	<u>150,000,000</u>	<u>500,000,000</u>	<u>436,210,000</u>
Totals			
If Revenue Bonds Are Issued	0	\$382,000,000	\$534,037,900
If Revenue Bonds Are Not Issued	\$470,000,000	\$882,000,000	\$834,037,900

The narrative below provides additional information regarding the estimated funding requirement for each of the funds shown in *Table 1*.

New School Facilities Fund

The New School Facilities Fund is established by A.R.S. § 15-2041 to provide funds to school districts for new school construction. The board reports that it will instruct the Treasurer to transfer \$250 million in TPT monies to the fund in FY 2002. This represents a \$50 million increase from the FY 2001 level of \$200 million. The amount to be transferred equals total projected allocations to individual school districts under statutory requirements, as interpreted by the board. Those statutory requirements pertain to enrollment projections, building adequacy standards adopted by the board, geographic factors, square footage per pupil, and square footage costs prescribed by statute and updated annually by the Joint Legislative Budget Committee.

For FY 2003, the board projects that the New School Facilities Fund will need \$260 million under the statutory factors. This number is subject to change and will serve only as a placeholder for FY 2003 during the upcoming budget process. The board will report its final FY 2003 estimate to JCCR in December 2001 and will instruct the Treasurer regarding this final amount by January 1, 2002.

Building Renewal

The Building Renewal Fund is established by A.R.S. § 15-2031 in order to provide funding for school districts to maintain the adequacy of existing school facilities. Building renewal monies are for major renovations and repairs, systems upgrades to extend the life of a building, and infrastructure costs on academic buildings owned by a district. The amount allocated to each school district is determined by a statutory formula. The primary components of the formula are building age (which is adjusted for significant renovations and upgrades) and building capacity value (which takes into account the building's student capacity, square footage, and square footage costs prescribed by statute). The board reports that it will instruct the Treasurer to transfer \$132 million in TPT monies to the fund in FY 2002. This represents a \$12 million increase over the original FY 2001 transfer amount of \$120 million. For FY 2003, the board currently estimates that it will instruct the Treasurer to transfer \$137.8 million. This represents a 4.4% increase over the currently estimated FY 2002 amount.

(Continued)

Status of Prior Year Building Renewal Shortfalls. During the past two fiscal years, the board's distributions to school districts for building renewal were cumulatively \$55.3 million less than the building renewal formula would have required for "full funding." In FY 1999, the board distributed \$75 million for building renewal, equaling the amount appropriated for building renewal for that year in Students FIRST. That amount, however, was \$28.7 million less than required by the formula. Accordingly, the board reduced each school district's allocation to approximately 72% of its full formula amount. In FY 2000, the board distributed all \$82.5 million available in the Building Renewal Fund, but that amount was \$26.6 million less than required by the formula (for a total cumulative 2-year shortfall of \$55.3 million). The board therefore reduced each district's FY 2000 allocation under the formula to approximately 76% of its full formula amount.

In response to a lawsuit that would require backpayment of these shortfall amounts, a Maricopa County Superior Court ruled in October that the board's FY 1999 allocation reductions were legally permissible because the amount available for distribution that year was governed by the appropriation for building renewal that year. For FY 2000 and subsequent years, however, the Court appears to have ruled that Building Renewal Fund allocations should be governed by the statutory formula in A.R.S. § 15-2031, rather than by the amount of money transferred into the fund. The Court, however, indicated that this does not necessarily mean that the FY 2000 shortfall was a violation of the state constitution's guarantee of a general and uniform school financing system. It instead ruled that evidence would have to be presented to the Court regarding the impact of the FY 2001 shortfall before such a finding could be made. It is unclear at this point whether the plaintiffs plan to present such evidence to the Court, thereby continuing the case.

New Building Renewal Shortfall in FY 2001. For FY 2001, the board originally estimated a Building Renewal formula cost of \$116.8 million. In January 2000, however, it instructed the Treasurer to credit \$120 million to the Building Renewal Fund in order to have a cushion for unexpected changes. Since then, the formula cost has been recalculated at \$122.7 million for FY 2001. Because the board instructed the Treasurer to deposit only \$120 million in the Building Renewal Fund, a \$2.7 million shortfall is projected for the year. The board plans to request a \$2.7 million supplemental appropriation for FY 2001 in order to make up this shortfall. The committee has requested a formal opinion from the Attorney General on this issue because it is unclear whether the board has the legal authority to request supplemental funding for its formula-based programs.

Continuing Problems With Data Quality. The board's current estimate of Building Renewal needs in FY 2002 and FY 2003 is based on self-reported data from school districts. As noted during the Committee's FY 1999 and FY 2000 reviews, the JLBC Staff is concerned that self-reported data may penalize districts that accurately report renovations or other building characteristics that reduce their formula amounts. The JLBC Staff is also concerned about the extent to which important self-reported data in general were incomplete or missing for many school districts. Although some corrections have been made, data quality continues to be a problem for this program.

Deficiencies Correction

The Deficiencies Correction Fund is established by A.R.S. § 15-2021 to correct existing facility and equipment deficiencies. Those deficiencies have been identified relative to adequacy requirements defined in A.R.S. § 15-2011 and guidelines adopted by the board and approved by JCCR in 1999. Under A.R.S. § 15-2021(E), all identified deficiencies are to be corrected by June 30, 2003. In July 2000, the board released a preliminary estimate of \$1.17 billion to correct all deficiencies by that date. Its planned transfers of \$500 million for FY 2002 and \$436.2 million for FY 2003 are based on that preliminary estimate.

(Continued)

The board indicates, however, that if revenue bonds are issued for deficiencies corrections, as allowed by Education 2000 (Proposition 301), it will instruct the Treasurer *not* to transfer any TPT monies to the Deficiencies Correction Fund in FY 2002 and will require a transfer of only \$136.2 million FY 2003. This is because the \$500 million issuance in FY 2002 would fully fund the projected cost of the program in FY 2002, and the \$300 million issuance in FY 2003 would cover all but \$136.2 million of the total estimated \$436.2 million cost for it that year.

Table 2: Deficiencies Corrections Funding in FY 2002 and FY 2003

	<u>With Bonds</u>	<u>Without Bonds</u>
<u>FY 2001 and Prior Years</u>		
Total	\$235,000,000	\$235,000,000
<u>FY 2002</u>		
General Fund	\$ 0	\$500,000,000
Bonds	<u>500,000,000</u>	<u>0</u>
Total	\$500,000,000	\$500,000,000
<u>FY 2003</u>		
General Fund	\$136,210,000	\$436,210,000
Bonds	<u>300,000,000</u>	<u>0</u>
Total	\$436,210,000	\$436,210,000
Grand Total	\$1,171,210,000	\$1,171,210,000

If the board does not issue revenue bonds for deficiencies corrections for either year, it will instead instruct the Treasurer to transfer \$500 million in TPT monies into the fund in FY 2002 and \$436.2 million into it in FY 2003. (The \$436.2 million estimate for FY 2003, however, is subject to revision and assumes that the preliminary \$1.17 billion estimated cost for all deficiencies corrections remains unchanged.)

The board expects to release a final estimated cost for deficiency corrections during the spring of 2001. If the final estimate is different from the preliminary estimate of \$1.17 billion, the board's transfer instruction for FY 2003 would be different from the placeholder amount. Even if the final estimate is higher than the preliminary estimate, the board believes that the revenue bonding provision of Education 2000 provides it sufficient flexibility to avoid a cash flow problem in FY 2002. Under Education 2000, the board could issue all \$800 million of the bonds in FY 2002, if necessary.

RS:PF:jb

STATE OF ARIZONA

Joint Committee on Capital Review

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DATE: December 12, 2000

TO: Representative Bob Burns, Chairman
Members, Joint Committee on Capital Review

THRU: Richard Stavneak, Director

FROM: Lorenzo Martinez, Senior Fiscal Analyst

SUBJECT: ARIZONA BOARD OF REGENTS/ARIZONA STATE UNIVERSITY - CONSIDER
APPROVAL OF BOND PROJECTS

Request

Pursuant to Laws 1996, Chapter 334, Arizona State University (ASU) requests approval to issue \$35,500,000 in academic revenue bonds for a Mediated Classroom/Social Sciences Building, and \$3,500,000 in auxiliary revenue bonds to partially finance a use fee for the right to use 700 parking spaces in perpetuity on the west side of the Main campus.

Recommendation

The JLBC Staff recommends the Committee approve the issuance of \$32,335,000 in academic revenue bonds for the Mediated Classroom/Social Sciences Building. This amount excludes \$3,165,000 for Computer Equipment and Fees. Given that the life cycle of computer equipment is significantly shorter than the proposed bond financing term of 25 years, the JLBC Staff recommends this item not be financed with bonds. The university should consider shorter-term financing or requesting operating funding when the building is operational in FY 2004. The JLBC Staff would also note that the life cycle of Telecommunications Equipment is also significantly shorter than the financing term, however, this item has consistently been financed as part of other bond projects. The JLBC Staff has not recommended ASU report on any transfers among cost categories given that the project has not been designed or bid, and the cost estimates of the project components are likely to change.

The JLBC Staff is collecting additional information from ASU on their request to issue \$3,500,000 in auxiliary revenue bonds to partially finance a use fee for parking spaces. The JLBC Staff anticipates having a recommendation for the Committee prior to the meeting and will forward all relevant materials to Committee members prior to the meeting.

(Continued)

Analysis

Laws 1996, Chapter 334 authorized the Arizona Board of Regents (ABOR) to issue up to \$245,400,000 in revenue bonds for the universities under its jurisdiction. Of this amount, \$100,000,000 was allocated to ASU. Pursuant to Chapter 334, the Committee favorably reviewed the ASU revised multi-year bonding plan in June 2000. Table 1 lists the projects in the ASU multi-year bonding plan.

Table 1

<u>Project</u>	<u>Bond Issuance</u>	<u>Status</u>
On-Campus Student Housing	\$15,000,000	JCCR Approved
Infrastructure Improvements Phase I	17,700,000	JCCR Approved
Mediated Classroom/Social Sciences Building	35,500,000	Subject of this memo
Parking Structure	4,000,000	Subject of this memo
Academic Renovations	8,000,000	Net Yet Approved
Major Building Maintenance	9,800,000	Net Yet Approved
Infrastructure Improvements Phase II	<u>10,000,000</u>	Net Yet Approved
TOTAL	\$100,000,000	

Chapter 334 also requires JCCR to approve each individual bond project before bonds may be issued. The JCCR shall also invite comment from the Governor or a designated representative for each project.

Mediated Classroom/Social Sciences Building

ASU is requesting Committee approval to issue \$35,500,000 in academic revenue bonds to construct a 173,000 square foot Mediated Classroom and Social Sciences Building on the western portion of the Main campus. Of the 173,000 gross square feet, 104,690 square feet, or 61%, will be used for classroom, laboratory, library and office space. The remaining 68,310 square feet is required for common spaces and power plant items. The new building will consolidate the departments of Political Science, Sociology, Speech and Hearing Science, and Philosophy, as well as provide mediated classrooms and an open computing site. A mediated classroom is a high technology classroom designed and wired to take advantage of electronic media such as audio/video conferencing and computer connectivity. Space vacated by the consolidated departments will be occupied by other university programs requiring additional space.

Table 2 lists the estimated costs of the project.

Table 2

<u>Category</u>	<u>Requested Estimated Cost</u>	<u>% of Total</u>
Architecture/Engineering/Consulting/Management Fees	\$ 2,500,000	7.0%
New Construction	22,000,000	62.0
Fixed Equipment	250,000	0.7
Site Development (includes parking and landscaping)	650,000	1.8
Utilities Extensions	1,000,000	2.8
Other	1,050,000	3.0
Risk Management Insurance	160,000	0.5
Contingency/Reserves	2,170,000	6.1
Public Art	125,000	0.4
Fixtures, Furniture and Equipment (movable)	2,000,000	5.6
Telecommunications Equipment	430,000	1.2
Computer Equipment and Fees	<u>3,165,000</u>	<u>8.9</u>
TOTAL	\$35,500,000	100%

(Continued)

The project will be financed with academic revenue bonds, meaning that the associated debt service on the bonds will be paid with revenues generated from tuition. Any tuition revenues not set aside by ABOR for debt service may be available to offset General Fund appropriations for university operating budgets.

Therefore, any increases in debt service requirements from issuing academic revenue bonds could have a potential impact on the amount of tuition revenues available to offset General Fund appropriations for operating costs. The bond issuance will be repaid over a 25-year period and generate an additional debt service requirement of approximately \$2,777,000 per year.

The JLBC Staff would note that ASU has allocated \$3,165,000 for Computer Equipment and Fees. Given that the life cycle for these items is significantly shorter than the proposed bond financing term, the JLBC Staff recommends these items not be financed with bonds. The JLBC Staff recommends a bond issuance of \$32,335,000. The recommended issuance would generate a debt service requirement of approximately \$2,529,500 per year.

When the building is complete, ASU estimates an operating increase of approximately \$1,200,000 will be required to operate and maintain the building. The building is expected to be operational in FY 2004.

RS/LM:jb